



Appendix F

Mercer

STPA RFI Executive Summary Report



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CalPERS Single Administrator Discussion

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Background Information

- On October 23, 2007, CalPERS issued a Request for Information (RFI) to select vendors
- The purpose was to obtain information from those vendors on:
 - The overall feasibility of implementing a Single Third Party Administrator (STPA)
 - Suggested models or structures to implement
- CalPERS asked Buck, Mercer, and Milliman to review and analyze the responses to the RFI
- The following summarizes the responses in order to assist CalPERS in:
 - Determining next steps
 - Developing an overall recommendation

Proposed STPA Models

- Responses to the RFI generally fall into three categories, or models
- It is possible that additional models or combinations of the three could align better with CalPERS' goals (e.g., Model 1 with some carve-outs)
- Process identified several potential candidates, though none clearly demonstrated or committed to savings for CalPERS
- CalPERS must prioritize and rank objectives in order to approach the market with a meaningful Request for Proposal (RFP)

Model	Categories of Responses	Vendors
Model 1	All-Inclusive STPA without Kaiser Integration	Blue Cross, CIGNA, Humana
Model 2	All-Inclusive STPA with Kaiser Integration	Aetna, Blue Shield, Health Net, UHC and Kaiser
Model 3	STPA with Independent Contractors	Buck, GM&A

Key Issues to Consider to Effectively Approach the Market

- What is Kaiser's role?
- How should network structures and funding be handled?
 - If self-funded (loss of capitation an issue)
 - Should more than one vendor offer networks
- What is the relative importance of each of the following key services; will the STPA be responsible?
 - Network development and on-going management
 - Claims processing, data capture and reporting
 - Member service and/or call center
 - Utilization management and case management
 - Health and disease management
 - Behavioral health
 - Prescription drugs
 - Health advocacy

Key Issues to Consider to Effectively Approach the Market

- Which of the above services should be included in the model?
 - Which are core and non-negotiable
 - Which should definitely be carved out
 - Which will vary depending upon demonstrated competency of the vendor and/or the financial, data or other ramifications
- What is the time horizon and what are the cost implications?
 - If the perfect solution does not currently exist, how long is CalPERS willing to wait for it to be developed
 - Who will assume the upfront risk and absorb the investment cost of product development

Suggested Next Steps

- Develop a consensus on key objectives for the STPA and determine how key issues should be handled
- Develop discussion guides for vendor interviews in January, 2008. These should include:
 - A series of “core” questions that apply to all vendors
 - Vendor-specific questions
- Determine when RFP development itself should begin:
 - Concurrently with development of the discussion guides;
 - After the interview process is complete; or
 - At some other point
- Conduct vendor interview process in January, 2008
- Publish a report on key findings from the vendor interviews

Appendix

Vendor Majority Opinions and Consultant Recommendations

	Majority	Buck	Mercer	Milliman
Plan Model	Network-based	Combine best-in-class components together	Assess key issues and set priorities before settling on a model	STPA should be a health plan with extensive HMO, PPO and EPO networks in California
Kaiser	No consensus on Kaiser	Keep Kaiser separate	Probably more realistic to keep Kaiser separate	Keep Kaiser separate
Cost-benefit Analysis	Expect reductions in cost; no specifics	Expect ROI in medium and long term	No clear ROI demonstrated; network is critical in CA	Expect reduced administrative costs if well-designed
Impact to Members	Expect lower costs can be passed on to members	Expect lower costs through administrative efficiencies	Any change in networks is likely to be disruptive	Expect reduction in premiums or health care trend that can be passed on to members
Gain/loss Sharing	Vendors either did not respond or provided varying responses	Tie penalties to administration; risk-share for DM and wellness based on reward	Tie to total claim cost targets; craft carefully to avoid unintended consequences	Balance conflicting objectives; consider TRICARE-style arrangement
Mitigating Risk Fragmentation	No majority opinion	Single pool for non-Kaiser plans	Single pool for non-Kaiser plans	Single pool with limited plan design options

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Strategies to Adjust Risk	Methodology should be used	Age/gender by region; use risk-adjusted employer rates	Maintain regional rating approach (includes demographics and risk)	Age/gender by geography; allow new contribution methodologies
Carve-out Opportunities	Will carve-out; urge carve-in	Carve out to most qualified and cost-effective	Weigh carve-out administration and complexities against competency and financial impact	Avoid carve-outs, and carve-in Rx
Network Design	No consensus; minority recommend CalPERS form own networks	Do not own the network	Existing are a faster route to implementation than developing CalPERS specific networks	Be open to network innovations, including narrow based on quality and efficiency
High Efficiency Networks	Should reduce costs	Provide as an option	Expand current approach and consider refinements over time	Should reduce costs
PHR and EMR	Most have PHR in place, and are looking at EMR	Evaluate in light of the cost of developing the technology	PHR is a valuable tool; EMRs are best addressed through the provider sector or via government action	Emphasize PHR and EMR systems in the model

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